



Statement by

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On behalf of the  
National Telecommunications Cooperative Association

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Subcommittee on Telecommunications and the Internet

In the Matter of

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A Look at the Voice Marketplace”

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## **Introduction**

Good morning. My name is Mark Shlanta. I am the Chief Executive Officer of SDN Communications of Sioux Falls, SD. I would like to thank you for inviting me to testify before you today to provide a rural perspective as you look further into IP-Enabled services and consider rewriting the Communications Act.

## **Company Dynamics**

SDN Communications is the information superhighway for South Dakota and beyond. Its story is one of innovation and cooperation by 27 South Dakota independent telephone companies to create the state's most extensive fiber optic network.

Today the region's premier healthcare facilities, banks, agricultural businesses and government agencies use SDN's services for:

- Switched and dedicated long distance
- Connecting the home office computers to those in branch locations
- High-speed Internet
- Video conferencing
- Hardware to make the broadband connections work

## **Company and IP**

SDN Communications and its member owners have been offering Internet services since 1997. At that time, our service was simply dial up with several "high speed" customers being served via DS1 circuits. We began offering DSL, cable modem and fixed wireless services in 2000 to fulfill the growing need for greater connectivity speeds. Today SDN and its members provide service to thousands of consumer, hundreds of commercial, and dozens of wholesale customers. We have grown to become one of the regions top Internet providers by offering our customers access to multiple IP networks via one connection to SDN. This multiple IP network approach has allowed

SDN to serve businesses from all across the country with data storage applications. In addition, our commercial customers can enjoy an Internet and long distance service via one connection to their office. In the future, we expect to serve more customers through developing centralized IP services.

### **Regulation of IP**

There is really only one issue that must be resolved to ensure the existence of a robust nationwide ubiquitous communications network that can support both IP-enabled services and other advanced services. That one issue is full cost recovery. Without adequate cost recovery there will be no network for IP-enabled services, or any other type of services for that matter, to reach consumers be it wireline, wireless or some other medium.

The two main aspects of cost recovery that policymakers and the public alike are talking most about are intercarrier compensation or as I like to call it “the cost of doing business” – and universal service. These are not industry regulations; they are industry responsibilities. In general, I think the industry as a whole believes that the way in which funds are collected and distributed for intercarrier compensation and universal service must be changed to ensure our network continues to exist and be upgraded. The solution for intercarrier compensation is a simple one: if any service provider uses another provider’s network that service provider must compensate the other provider for the use of their facilities – at an appropriate rate. This notion is not complex; it is simply ensuring that all players stand up to their responsibilities of having the opportunity to partake in our capitalistic marketplace. The solution for universal service is also a simple one: the base of contributors must be expanded to include all telecommunications service providers – and yes, this quite possibly could mean that small rural companies might end up contributing more tomorrow than they do today. It is a responsibility we are willing to share to ensure that all Americans, and not just the privileged, are able to enjoy the benefits of this technological era.

Many call intercarrier compensation or access charges an implicit subsidy. I call it a legitimate operating cost for a telecommunications provider. We have invested tens of millions of dollars to

serve rural communities. If a carrier would rather come and build their own network instead of using ours for a nominal fee, they are welcome to do so. As an Internet provider myself, I compensate the owner of the Internet backbone that I must utilize to offer Internet services to my customers. I view this as a legitimate cost for providing Internet services to our customers. I recognize and accept that without use of their network I could not provide these services for my customers. I am therefore fortunate that the network resources are available to help me in providing my customers with the full array of advanced services that are available today.

Tell me, why should a new service provider be able to access this network for free? This debate seems to be focused on whether new IP-enabled service providers should pay access charges. To those of us that toiled to finance the deployment of infrastructure the question is: why should they not? I understand that we don't want to bog down new entrants with unnecessary regulations, but allowing them to skirt industry responsibilities is simply wrong. If a new provider's business plan can't accommodate playing by the rules and upholding industry responsibilities, then they probably shouldn't be playing. After the 1996 Telecom Act, we saw a large influx of new telecom entrants. Unfortunately, many did not have sound business plans and were soon out of business or in bankruptcy. Thus, hampering investment in the telecommunications industry as a whole. We don't want to recreate the boom/bust scenario of that period by artificially incentivizing unsound businesses that cannot operate without regulatory arbitrage.

I concur that the current patchwork of intercarrier compensation needs to be reformed, however it needs to be reformed in such a way to put all telecommunications services on a level playing field regardless of technology used. This regime should be cost based and applied equally across communications platforms. IP-enabled service providers should be required to pay access charges when their services originate or terminate on the PSTN, regardless of their regulatory classification as information or telecommunications service. Indeed, I believe these classifications are irrelevant in an IP world, where the functions that the network provides are what matters – not the service classification. Americans today uniformly rely on communications infrastructure and services to

satisfy their commerce, safety, security, entertainment, and leisure needs. Moving forward, these needs will be met via a combination of 2-way voice, video, and data options. Consequently, deploying advanced infrastructure that is fully capable of offering such services should become the hallmark of our national universal service policy.

Many policy-makers, think tanks and others seem to think that once a national broadband network is built there will be no more need for the universal service program. But aren't we ignoring the large fact that networks must also be maintained and upgraded? Many people think that technological advancements will make universal service obsolete. The narrowband copper network has been around more than 100 years, yet there is still an urgent and recognized need for universal service support. Why do we believe things will be different in a broadband world? In rural America, these costs are always going to be significantly more, even after a complete network is built. Yes, technological advancements are helping to reduce the cost, even in rural areas, but it still is always going to be more expensive to serve rural America due to low population density, expansive distances, and often-rugged terrain. Without continued universal service support our national goal of universal broadband access may never be realized.

I feel the best way to reform universal service is to broaden the base of contributors to include all communications providers. Cable, wireless, and satellite broadband Internet access service providers, and VoIP and other IP-enabled service providers should contribute since they all benefit from the national network.

Universal service is a long-standing public policy goal, and a goal I believe we still want to flourish. Congress wrote sections 254(b)(3) and 151 of the Communications Act of 1934 that states consumers in rural and high-cost areas should have access to comparable and affordable telecommunications services to ensure that this public policy goal was met. This has only been fully realized through the infrastructure deployed by community-based telecommunications providers who connect rural America to the rest of the world. These rural incumbent local exchange carrier

networks serve approximately 40% of the geographic area of the United States and nearly 80% of my state and other rural states. Allowing new providers to use these networks without adequate compensation will compromise this network and that is a lot of our country to leave behind.

We are not asking for special treatment. We are only asking for a level playing field. All new entrants into the communications marketplace should uphold our current industry responsibilities of intercarrier compensation and universal service. Carriers that use our networks should provide us with just and equitable compensation just as we expect to pay them such compensation for the use of their networks.

Again, all service providers and consumers benefit from a robust national network infrastructure. The current structure of cost recovery enabled us to achieve our impressive 94% telephone penetration rate. In order to achieve those same penetration rates with broadband and for whatever new technology will be offered after broadband we need to modify the existing regime but having the regime in place is absolutely critical.

Interconnection and access to infrastructure, content, roaming, spectrum, rights-of-way, and adequate financing are all critical to the operational success of a nationwide integrated communications network. It is particularly important that such access be at appropriate rates, terms, and conditions. In light of the vertical integration that is taking place throughout the communications industry, it is more important than ever that mechanisms, such as prohibitions against nondisclosure agreements and strictly defined negotiating parameters are in place to ensure such access is a reality. In addition, government-mandated default rates, terms, and conditions that ensure full cost recovery for rural carriers should be applicable when negotiations fail.

Throughout the course of our history, America has been recognized as a pre-eminent technological and economic force. Today however, many would have us believe we are losing that edge. How

can this be considering the ingenuity and commitment that is displayed every day by leaders such as those making up the rural sector of the communications industry?

Former Congressman and father of fiber optics, Amo Houghton, recently noted, “For years, Corning and other optical equipment companies preached fiber to the home or ‘fiber to the premises’ as the term has developed. We told the communications companies that they could generate more revenue and cut their maintenance costs, if they would extend fiber to the home or business. It had to happen ultimately, but we thought it would start in urban areas and roll out slowly to rural areas. We were wrong. The reverse happened. Instead, the pioneers were rural telcos and small municipalities. Some of NTCA’s members have been extremely visionary in this regard. I’ve always been impressed by how progressive and resourceful rural telcos are – I think they really embody the spirit of American enterprise – always have.”<sup>1</sup>

Rural carriers are using a multitude of technologies to bring broadband to their communities and will continue to be leading innovators in the broadband marketplace.

We look forward to working with you as a full partner as you look to rewrite the Communications Act. Thank you again for inviting me to testify before you today.

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<sup>1</sup> March/April issue of *Rural Telecommunications Magazine*

## **Summary**

IP-enabled services and all communications services rely upon a healthy and robust network infrastructure to reach end users. The one issue that must be resolved to ensure the existence of a robust nationwide ubiquitous communications network that can support IP-enabled and other advanced services in the future is cost recovery. Without adequate cost recovery there will be no network for any communications service, including VoIP, to reach consumers be it wireline, wireless or some other medium.

The two main aspects of cost recovery that policymakers are talking most about are intercarrier compensation and universal service. Both are not simply regulations but are industry responsibilities. There is general consensus that the way in which funds are collected and distributed within these two industry responsibilities must be changed to meet the market realities of today. The solution for intercarrier compensation is a simple one: if any service provider uses another provider's network that service provider must compensate the other provider for the use of their facilities at an appropriate rate. Carriers that invest millions in network infrastructure should receive compensation from those that utilize it in lieu of building their own network.

The solution for universal service is also a simple one: the base of contributors must be expanded to include all telecommunications service providers, including cable, wireless, and satellite broadband, and IP-enabled service providers since they benefit from the network. Many policymakers and others seem to think that once a national broadband network is built there will be no more need for the universal service program. But that ignores the reality that networks must also be maintained and upgraded. Despite technological advances, it is, and will continue to be, significantly more expensive to serve rural America even after a ubiquitous broadband network is built.

Again, all service providers and consumers benefit from a robust national network infrastructure. The current structure of cost recovery enabled us to achieve our impressive ninety-four percent national telephone penetration rate. In order to achieve those same penetration rates with broadband and what is after broadband we need to modify the existing cost recovery programs, but having the programs in place is absolutely critical.